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# American Banker

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## TODAY

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**FUND IMPASSE BROKEN:** The Congressional Budget Office has agreed to a revised plan to recapitalize the federal thrift insurance fund, paving the way for banking committees in the House and Senate to move ahead on financial legislation. After a month-long impasse, budget office director Rudolph Penner and top Treasury officials reached an agreement on a redesigned plan that avoids government responsibility for bolstering the fund..... 9

**BRAZILIAN PROBE:** The Brazilian Central Bank plans to ask Morgan Guaranty Trust Co. for the names of the wealthy Brazilians whose $6 million was allegedly misappropriated by Antonio Gebauer, a former Morgan officer..... 5

**NOTE IN LIEU OF CASH:** For only the second time, the Federal Deposit Insurance Corp. has given a bank an interest-bearing note instead of a cash advance as an incentive to take over a failing institution — this time in Minnesota..... 9


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## Quote

***You can still make money on plain vanillas, but is it enough money to justify the implicit capital that is tied up? And it's not clear just what that capital is.***

Donald Layton, a senior managing director in the investment banking sector at Manufacturers Hanover Corp., on the current marginal profitability of plain vanilla swaps. [Page 1]

## Unquote

AN AMERICAN BANKER SPECIAL REPORT

### HOW THE TOP BANKS RANK IN INTEREST-RATE SWAPS

| 1985 Rank | Bank* | Dollar Amount of Swaps Outstanding as of 12/31/85** | Dollar Amout of Swaps Booked in 1985 | Number of Swaps Booked in 1985 |
|---|---|---|---|---|
| | | (Dollar Amounts in Billions) | | |
| 1 | Citibank | $36.4 | N/A | N/A |
| 2 | Bankers Trust | 23.5 | $15.6 | 722 |
| 3 | Manufacturers Han. | 22.6 | N/A | N/A |
| 4 | Morgan Guaranty | 21.6 | N/A | N/A |
| 5 | Chemical Bank | 13.8 | N/A | N/A |
| 6 | First Chicago | 12.0 | 5.6 | 304 |
| 7 | Chase Manhattan | 10.0 | 6.0 | 270 |
| 8 | Bank of America | 7.0 | N/A | N/A |

* Of the 10 largest U.S. banks (in terms of deposits), Wells Fargo Bank and Security Pacific National Bank did not disclose their 1985 swap volume.
** The figures, disclosed in the banks' annual reports, may also include currency swaps. The banks did not distinguish between the two kinds of swaps in their disclosures.
N/A Bank declined to provide figures

# Banks Outstrip Wall Street in Swap Market

## Citibank No. 1 in 1985; Bankers Trust Is Second

By LISABETH WEINER

CHICAGO — Commercial banks, and not the big Wall Street investment houses, dominated the interest-rate swap market last year — distinguishing the swap from most other innovative corporate finance tools.

THE NEW INVESTMENT BANKERS
SECOND OF A SERIES

And Citibank, by a fairly wide margin, emerged as the nation's premier swap dealer, not only compared to other commercial banks but among all financial institutions. At the end of 1985, Citibank had $36.4 billion in swaps outstanding, well above the $23.5 billion in swaps outstanding reported by second-place Bankers Trust Co.

Increased competition in the swap markets has narrowed spreads and profits considerably. Nonetheless, every big bank is anxious to remain a major player in swaps and nobody wants to be left behind.

These are among the findings of the *American Banker's* first investment banking survey, which ranked commercial banks by their involvement in five different lines of investment bank-

Swaps: Page 2 ➡

**A new team of leaders arises to run swap groups**

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# Banks' Profits on Deals Drop Sharply As Interest-Rate Swap Market Grows

CHICAGO — Along with the explosion in the U.S. interest-rate swap market has come a sharp decline in the profits that bankers are able to realize on their swap deals.

"The ability to do a deal with a 10-basis-point [bid/offer spread] is difficult," said Dave Edston, a vice president and the head of U.S. dollar interest-rate swaps at the Bank of America.

As swaps have become more commonplace, almost commodity-like in their essence, the profits to swap dealers — banks — have dwindled.

"I just see those spreads getting more and more narrow," Mr. Edston said.

The bid/offer spread refers to the difference in price that a dealer would pay to receive one side of a swap and the amount it will cost the dealer at a later date to lay the swap off.

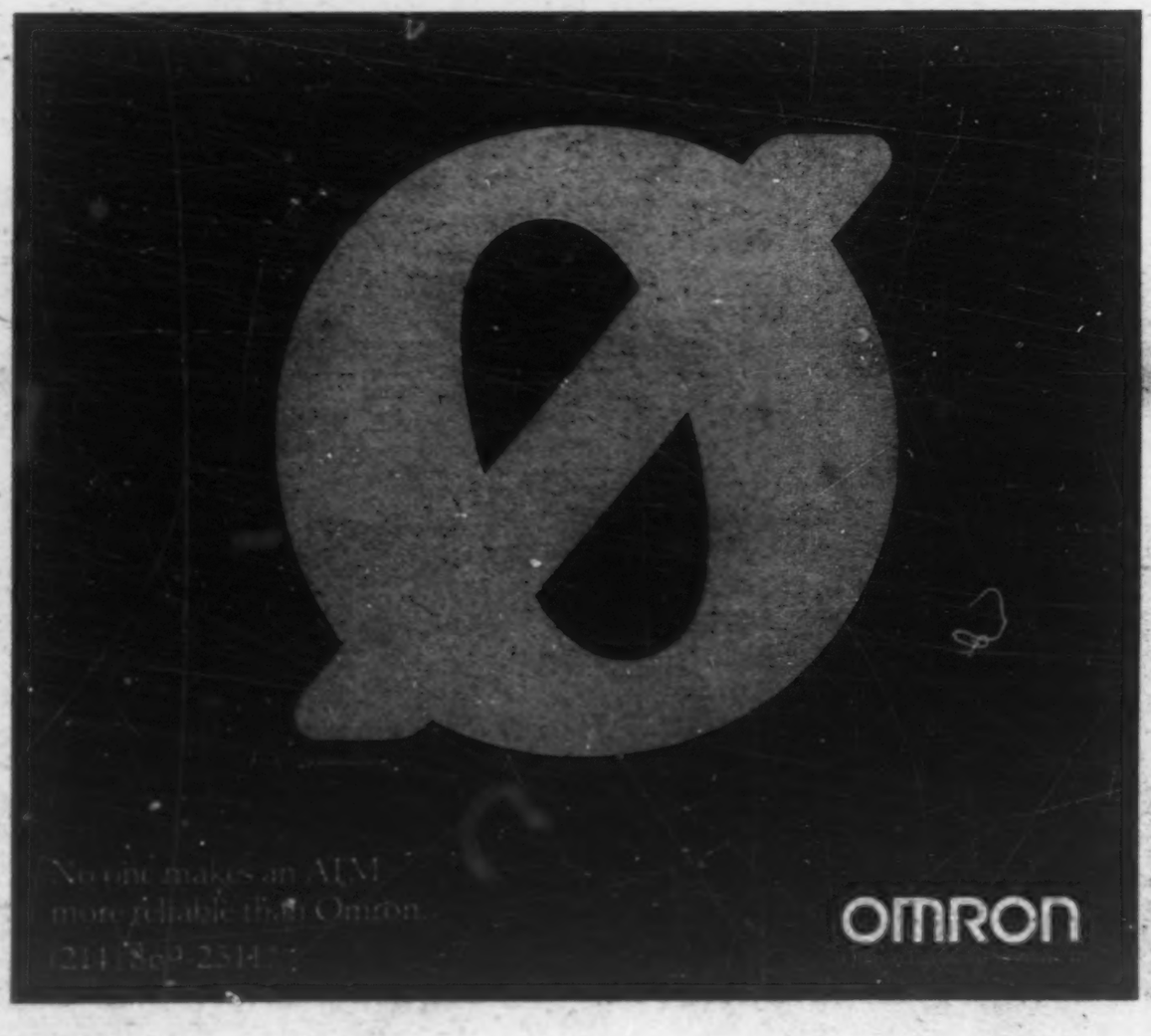
The basic swaps — or "plain vanilla" deals, as they are called — are responsible for the significant growth in volume that has occurred over the last three years. As volume has increased, however, profits on individual deals have shrunk. These changes are a normal part of what happens when competition in corporate finance heats up and more players enter the market.

"With competition, you have greater efficiency in the market, as it becomes more of a trading environment and not corporate finance," Mr. Edston said.

As a dealer, however, he has to be concerned with whether the return to the bank is adequate and whether the credit risk is being accounted for properly in the pricing of the swap.

Some swap dealers have estimated the current average bid/offer spread at seven to ten basis points, although in an aggressive environment it has gone as

Profits: Page 2 ➡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AN AMERICAN BANKER SPECIAL REPORT

# Banks in Survey Account for About 76% of Outstanding Swaps

Continued from Page 1

ing businesses. In the swap field, banks were ranked by their outstandings as of Dec. 31, 1985, a figure that eight of the 10 biggest banks disclosed voluntarily in their annual reports. The banks did not distinguish between interest-rate swaps and currency swaps in the reports, but the bulk of last year's volume involved interest-rate deals.

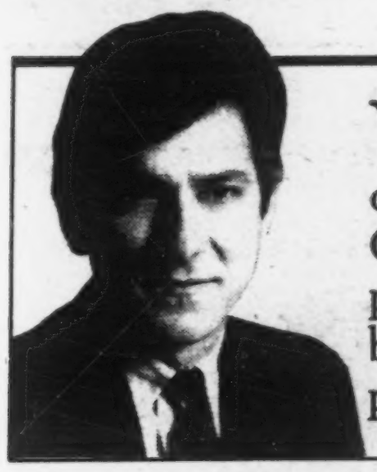
Outstandings — known technically as the notional principal of swaps outstanding — measure an institution's swap activity over the long run. The number does not necessarily reflect new swaps booked in 1985.

Interest-rate swaps are exchanges of cash flows between two or more parties. In its simplest form, a swap is accomplished when company A trades its fixed-rate interest payment for Company B's floating-rate interest payment.

deal. A bank, for instance, might win an underwriting of a Eurobond by offering to convert the proceeds of the bond sale into dollars through currency swaps.

Except for commercial loans, swaps represent the only corporate finance product clearly dominated by the nation's largest banks.

Banks participating in the *American Banker* survey accounted for about 76% of the $170 billion in total swaps outstanding — a market defined by the International Swap Dealers Association, a trade group working to standardize the record-keeping of swaps. It counted the outstandings of its 33 members, which include six of the 8 banks shown in the accompanying chart, but not Chase Manhattan Bank or First National Bank of Chicago. The association said nearly 7,000 swap contracts have been executed since 1982.



**Yves de Balmann, vice president in** charge of interest-rate swaps for Citibank. Grateful for the bank's deep pockets, he says 'the size of our capital base is important in our ability to participate as a major dealer.'

Swaps are motivated by a variety of factors, but they usually boil down to taking advantage of some market discrepancies, which reduces the cost of debt to the customer.

Developed in the late 1970s as the outgrowth of parallel loans or back-to-back loans, swaps have exploded into one of the hottest and most complex financing instruments available to corporate America.

Although swaps are not as profitable now as they were when the market first began, banks still are recognizing fair profits for their work. The average interest-rate swap deal is about $25 million, which could result in an annual per-deal profit of about $25,000. And banks can earn even more by arranging more complex interest-rate swap transactions, involving the use of options, warrants, and other "bells and whistles."

Looking beyond direct profits, a swap also can be used as a sweetener, thrown in at the last minute to secure a

"Swaps are the first product where neither investment bankers or commercial bankers were dealing from strength [when the market began budding four or five years ago]," said Donald Layton, senior managing director in charge of asset/liability management at Manufacturers Hanover Corp. Today, big banks are far more recognizable in the swap market than the major Wall Street firms.

Salomon Brothers Inc., which won't reveal the size of its swap portfolio, is considered the biggest swap dealer among securities firms, with some estimating its outstandings at about $15 to $20 billion. That is considerably smaller than Citibank's swap portfolio and perhaps smaller than three other New York money center banks.

One of those money centers, Bankers Trust, booked $15.6 billion in interest-rate swaps and $1.1 billion in currency swaps in 1985 alone. Bankers Trust said its swap team generated $30.3 million in revenues last year.

Bankers Trust, followed by third-place Manufacturers Hanover, with $22.6 billion outstanding, and No. 4 Morgan Guaranty Trust Co., with $21.6 billion outstanding, were all crowded together in the rankings.

As demand for these innovative risk-management tools increases, so does the need for well-skilled swap specialists. Members of the financial community have grown accustomed to news of mass defections and hirings of star swappers.

Fifth-ranked Chemical Bank, with $13.8 billion in year-end outstandings, has become the latest revolving door for swap specialists. On June 12, the bank announced the appointment of six professionals to its worldwide swaps group. Just a few weeks earlier, five members of Chemical's New York swap team left en masse to join Morgan Grenfell, a London merchant bank.

First Chicago, placing sixth among leading commercial banks with $12 billion in outstandings, continued to expand its swap unit last year. The swap team booked 304 swaps in 1985, worth $5.6 billion, compared to $4.2 billion from 222 new swaps in 1984.

Chase Manhattan Bank also beefed up the size of its portfolio last year, conducting 270 swaps worth about $6 billion. Chase ranked seventh, with $10 million in outstandings at yearend 1985.

Bank of America took the eighth spot, with $7 billion in swaps outstanding. Continental Illinois and Security Pacific National Bank of Los Angeles declined to disclose the size of their swap business. Explaining Security Pacific's decision to withhold its swap figures, a bank spokeswoman said, "Nobody in this field likes to toot their horn unless they feel very confident that they have a horn to toot." Swap dealers from other banks point out that Security Pacific spent most of last year building its swap department and that it has been extremely aggressive and active thus far in 1986.

Currency swaps actually preceded interest-rate swaps, which didn't come along until 1981. Then it was the result of a rather complicated yen-for-dollar currency swap that Citibank arranged for Canadian and Irish investors. Citibank dreamed up an interest-rate swap arrangement when Japanese and Arab banks were seeking floating-rate debt in place of the fixed-rate bonds they had accumulated from the currency deal.

By 1982, Citibank had a team of a

Swaps: Page 10

# Banks' Profits from Swap Deals Down

Continued from Page 1

low as two to three basis points. On a $10 million swap, a 10-basis-point spread would mean $10,000 in revenues annually for a bank, compared with a yearly $3,000 take on a three-point spread.

Still, Katherine MacWilliams, who heads First Chicago's swap team, said that "the return [on swaps] is reasonable, although not stellar. That's evidenced by the continued entrance into the market of new players."

Donald Layton, a senior managing director in the investment banking sector at Manufacturers Hanover Corp., agreed that at the moment plain vanilla swaps are marginally profitable.

"You can still make money on plain vanillas, but is it enough money to justify the implicit capital that is tied up? And it's not clear just what that capital is," Mr. Layton said.

### Bankers Say Risk Is Included in Price

Despite the weakening bid/offer spreads and the increase in volume, most bankers say publicly that they are pricing adequately for risk. "We certainly are not chasers of volume at the expense of return on risk," said Yves de Balmann, a Citibank vice president. "We have determined risk parameters and guidelines for return on capital.

"We'll lose a transaction if it does not generate enough return on capital," Mr. de Balmann added.

Banks have come to terms with these dwindling profits in a number of ways. They are finding that they can earn more on individual transactions that involve special features, such as a call option or a warrant to hedge a customer's interest rate risk.

Some banks, also, are making money on swaps by tying them to other products such as Eurobonds sold overseas. The great bulk of revenues from the swap business still comes from the sheer volume generated by the plain vanilla deals.

The dramatic decline in interest rates over the past few months also has changed the nature of the swap business as the all-in, or net cost to the customer, has decreased. Treasury bond rates, which are the basis for swap quotes, have declined by 200 to 250 basis points in the last six months, a boon to clients.

However, the other side of the pricing equation, which is quoted as a spread over Treasury bond quotes, has widened significantly as the demand for clients to receive the fixed side of the deal has increased.

The swap market, essentially, is driven by what is going on in the Euromarkets. In fact, some industry observers have estimated that 50% to 75% of all of the fixed sides of swaps originated through bond issues. These would be corporate customers who have the ability to tap the fixed-rate markets, but are really in search of even cheaper floating-rate debt. Thus, as the underlying spreads in the cash market change, swap spreads follow.

In the first quarter this year swap spreads increased sharply, said Joseph Bauman, who heads the swap desk at Chemical Bank in New York. What that means is customers were willing to pay more to lock in a fixed-rate debt payment at these attractive interest rate levels.

The spread of Treasury securities that is quoted in a swap deal reflects basic supply and demand economics and competition in the marketplace. It also includes the bank's fee for putting the deal together and the bank's perception of adequate coverage for the risk exposure.

### Rate Cut Sparked Corporate Swaps

The drop in Treasury rates since the beginning of the year has been the motivation for a number of corporations to take part in a swap that would secure the payment at a relatively low, long-term rate. Thus, the demand to be fixed-rate payers in a swap pushed up spreads in order to induce the suppliers of the fixed side to take part in the swap.

"About three months ago, spreads were trading in the area of 40 to 60 basis points," said Mr. Bauman. "More recently, spreads have been quoted at 80 to 100 basis points over [Treasury's quote], or 80 to 110 basis points over depending on credit quality."

Thus, for people who are just getting into swaps now, as long-term interest rates have dropped to 8%, some pretty good deals have been secured. But how about investors who booked swaps a year ago, when interest rates were closer to 12% or 13%?

Kim Chandler, a swap specialist with the Bankers Trust Co., said this drop in interest rates has helped to promote the development of a secondary market in swaps.

For example, last January, Company A booked a seven-year swap in which it was the fixed-rate payer at 10.5%. Today, interest rates are 8%, so Company A is in a losing position.

In order to get Company A out of that dilemma, Bankers Trust might be willing to pay the company a "certain amount of cash to get out of the January swap and put one on at 8%," Ms. Chandler said. "Even with the cash payment, it would still give the customer an advantage."

In this case, rather than requiring the up-front payment in one lump sum, the banker would be willing to let the payment be amortized over the life of the second swap. What has happened in the meantime is that the amount of money necessary for unwinding a swap has increased dramatically.

"Last year, payments in the secondary market were in the neighborhood of $500,000 or $1 million," Ms. Chandler said. "Now, somebody with an 11% or 12% swap will have to pay $10 million or $15 million to get out of the swap."

— Lisabeth Weiner

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# MARKETING TODAY

## MoneyMaker Electronic Transfer Firm Says Sweepstakes Will Boost ATM Usage

By DON MUNRO

NEW YORK — To increase usage of its off-premise automated teller machines, MoneyMaker EFT Services has kicked off another sweepstakes, its fourth since the network was established two years ago.

A three-way venture with KVIL-FM Radio in Dallas and Dallas-based Southland Corp. — owner of 7-Eleven convenience stores where MoneyMaker operates about 650 ATMs — MoneyMaker is offering participants 100 $1,000 prizes if their numbered ATM transaction tickets match those called over KVIL-FM airwaves. A grand prize of $50,000 will be paid out when the contest ends Sept. 1.

MoneyMaker, a subsidiary of the $2.4 billion-deposit First Texas Savings Association, Dallas, has 22 member institutions, including Gibraltar Savings Association, which it acquired in 1984. About 140,000 cardholders are registered to use its network of 775 ATMs.

Promotions like the KVIL sweepstakes, MoneyMaker said, increase usage during the game period and after. For example, the company said ATM usage increased by 30% in the Dallas market during the May run of "the Sure Thing," a 7-Eleven ATM contest often resurrected by the network. Sure Thing awarded ATM users prizes like cups of coffee or soda, $5, $10, $100, or $1,000.

MoneyMaker estimates that as of its latest monthly transaction report, 50% to 65% of Sure Thing players are still using the 7-Eleven ATMs.

The style in which MoneyMaker conducts its contests has earned the grudging respect of one of its strongest competitors, MTech Corp., the data processing subsidiary of MCorp, Dallas.

"They're smart marketers," said Bob Heckman, executive vice president of marketing for MTech, which runs MPact, another Texas shared ATM network.

Mr. Heckman, who said he would like nothing better than "to put a sign up in [MoneyMaker's] window saying, 'Don't use MoneyMaker ATMs, use ours,'" but acknowledged, nonetheless, that "they have a very aggressive stance, and we take our hats off to them."

**Similar, but Not as Successful**

MTech itself runs contests similar to the Sure Thing, but without the success MoneyMaker claims. According to Mr. Heckman, a sweepstakes dubbed "MPact Madness" conducted throughout Texas last summer by MTech resulted in a 21% rise in usage at its 300 ATMs located in Safeway supermarkets. Mr. Heckman said the game offered players "basic things" like free ice cream cones and hamburgers. This year, he said, he'll wait for ATM players "to get all warmed up" with MoneyMaker's game, and then "[MTech] will come in with a killer program, maybe offering people their son's weight in gold."

MoneyMaker expects about five million players to take part in its game. However, the network is unsure about how this sweepstakes will increase transactions, because unprogrammed cards can be used for the game, MoneyMaker spokeswoman Patricia Norvelle said.

"Not everyone is completing a bank transaction, so it's a little hard to tell," she said.

KVIL listeners can use any debit card or major credit card — including those that have not been programmed for acceptance in the network. For those unprogrammed cards, like Visa, MasterCard, and American Express, players need only input zero after inserting their cards to get an eight-digit contest number.

In this contest, the overhead costs are split three ways with the radio station and Southland, so the network will only spend about $300,000 on the whole contest — including the prize money. Still, Mr. Heckman of MTech said the frequency in which MoneyMaker engages in such programs means "somebody has a lot of money, because they're expensive."

To MoneyMaker, however, the potential benefits outshine expenses. President Scott Engle said the contest is aimed at getting people "to pull the debit piece of plastic out of their pockets and try it in the machine. Once they get over that initial fear of the ATM they like using them because they're convenient."

Ms. Norvelle said the contest will make users aware of other services ATMs can provide.

"We have the capability to design programs like travel and entertainment ticket dispensing, so it makes the box a little bit more attractive to member financial institutions. We're looking into establishing utility payment systems."

Added Mr. Heckman of MTech: "It helps the whole marketplace because it gives greater awareness."

Another reason bankers push electronic banking with contests is to increase fee volume. MoneyMaker, like its competitors, charges customers from nonaffiliate banks a fee to make transactions. The fees run from 30 cents per transaction to 65 cents per transaction.

Contests are also a critical step in helping MoneyMaker reach its break-even point. Mr. Engle of MoneyMaker said that with 3,500 monthly transactions per machine, "you will have enough revenue to cover costs." So the break-even point for MoneyMaker's 7-Eleven ATMs is 2.3 million monthly transactions. He would not elaborate on the break-even point for the rest of the network. However, MoneyMaker only does about 2.1 million transactions per month on all of its 775 machines.

In 1985, the network estimated it needed 3.2 million transactions from its ATMs just to break even. ■

## Court Agrees to Speed Handling of Getty Case

WASHINGTON — Gordon P. Getty's efforts to acquire National Permanent Bank here received a new lease on life last week when a federal appeals court agreed to speed up consideration of the oil heir's challenge to a regulator's decision awarding the failing local thrift to Citicorp.

Mr. Getty contends that under the Federal Savings and Loan Insurance Corp. guidelines he must be treated as a local institution and therefore is entitled to preferential treatment over New York-based Citicorp under the 1982 Garn-St Germain Act.

Although the U.S. Circuit Court of Appeals initially refused to expedite handling of the suit, Mr. Getty's lawyer, Roger W. Mehle, asked the court to reconsider after learning that the Federal Reserve Board planned to rule on Citicorp's application this week. ■

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## Swaps . . .

➳ Continued from Page 2

dozen people, who were clearly a force in getting the interest-rate swap business off the ground. Today, Citibank employs 25 swap specialists in North America and 40 to 50 worldwide.

The growth of the swap business has been enormous in the last three years, to the point where it is now frequently referred to as a commodity rather than a creative financing instrument. Thanks to the ability that most commercial banks have of being able to act as a principal and warehouse their swap positions, straightforward plain vanilla swaps can be executed in minutes, despite the fact that customers may be at opposite ends of the world. The more complicated swaps, with any number of special features and caveats, make up a small minority of the total swap business, although this is where the largest profits can be made.

**Why Banks Get The Edge in Swaps**

How have commercial banks managed to move ahead in such fiercely competitive business? The answer is in a three-pronged advantage commercial banks have over their investment banking rivals

- Banks maintain a strong presence in the foreign exchange markets — a necessary tie between interest-rate and currency swaps.
- Most benefit from extensive global networks, giving the banks access to an unlimited supply of swap customers, or counterparties.
- Commercial banks, by their nature, possess the ability to stand in the middle and act as principal in a transaction.

It is this third characteristic that most bankers would agree gives commercial banks the edge in the swap business.

"Investment banks don't have a level of unsecured creditworthiness," said Mr. Layton of Manufacturers Hanover. While some investment banks, such as Salomon Brothers, do stand in the middle of swap deals, others, such as Goldman Sachs & Co., act only as broker — bringing the two counterparties together but never acting as principal.

A commercial bank can act as an intermediary by taking a role as a principal, assuming the credit risk in a deal and covering itself by hedging in the cash market.

Commercial banks present the image of institutions that are going to be around for a long time, an image that smaller investment banks have not established. "Is the investment bank still going to be around in seven years [when a deal matures]?" one commercial banker said. A commercial bank, on the other hand, is backed by a huge balance sheet and a large capital base.

"The size of our capital base is important in our ability to particiate as a major dealer" in swaps, said Yves de Balmann, vice president of Citibank. Even with 50 swap specialists worldwide, "we sell [swap products] throughout the pulse of our organization."

"This ability to intermediate is a value added in the world of swaps," said Katherine MacWilliams, who heads the swap desk in Chicago for First National Bank of Chicago. In addition, she said, commercial banks have a long history of assessing the credit of their counterparties, a necessary ingredient in pricing some deals.

However, investment banks have one key advantage that the commercial banks lack, the legal authority to underwrite corporate bonds domestically and internationally. The Glass-Steagall Act prohibits commercial banks from underwriting corporate securities in the United States.

That advantage has become more noticable in the last 18 months, as many companies have issued bonds and attached a swap to reduce the debt cost, in what investment bankers call side-by-side products.

The ability to offer bonds, however, may not be enough to overcome the creditworthiness advantage offered by commercial banks, Mr. Layton of Manufactures Hanover said. "Risk is an important issue. Nothing dramatic could happen that would put [commercial] banks out of business."

**The third part of this five-part series tomorrow will examine commercial banks as managers of tax-exempt financings.** ■

**Strategic Dates**
**July 15, 1986**

**NET WORTH EXTENSION:** The Net Worth Certificate Act and the emergency acquisition provisions of the Garn-St Germain Act expire today. The Act was set to expire in April but President Reagan extended it.

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# American Banker

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## TODAY

**FIRST INTERSTATE PACKAGE:** The Federal Deposit Insurance Corp. agreed to an unusual, and expensive, assistance package in First Interstate Bancorp's acquisition of the First National Bank and Trust Company of Oklahoma City after the agency failed to sell off the bank before closing it..... 16

**FIRST NATIONAL FALLOUT:** The failure Monday of First National of Oklahoma City is likely to rejuvenate congressional efforts to permit federal regulators to arrange mergers for troubled banks before they are declared insolvent..... 16

**ACCOUNTING HEARINGS:** The Financial Accounting Standards Board begins three days of hearings today in Washington on its controversial proposal on accounting for loan-origination and acquisition fees, with the hearings likely to focus on the issue of what costs of loan originations can be capitalized..... 2

**THRIFT TAKEOVERS:** Federal regulators have sold three ailing thrifts in two assisted interstate transactions. Buffalo, N.Y.-based Empire of America acquired two savings and loans in California; Rainier Bancorp. acquired an S&L in Oregon..... 2

**HOGAN CONTRACT:** Hogan Systems Inc. said it has signed a contract to convert Midland Bank, Britain's third largest, from Burroughs to International Business Machines computers and to install Hogan software throughout its worldwide network of 2,188 branches..... 2

**MORE MIXED EARNINGS:** Major money center banks continued to report mixed second-quarter results Tuesday as Citicorp, the nation's largest bank holding company, and Manufacturers Hanover Corp., the nation's fourth largest, reported lower earnings than in the second quarter of last year..... 3

**MARKETING MANAGEMENT:** Former MBank El Paso executive Martin Kern says banks are their own worst enemies when it comes to competing with brokers for sales...4

**ECONOMIC PERSPECTIVE:** Robert J. Samuelson takes a hard look at the 'virtues and vices' of monetarism...4

## TECHNOLOGY TODAY

**LANGUAGE SYSTEM:** Developers of a new microcomputer system claim it makes text processing of the Chinese language easy..... 6


In the News..... 3


**Quote**

***Imbued with divine knowledge, and speaking mystical incantations, marketing shall go before you as a pillar of fire.***

Robert L. Rodgers, vice president and marketing director of Calcasieu Marine National Bank, Lake Charles, La., taking issue with a Marketing Management column that urged banks to make major organizational changes to enhance their marketing efforts. [Page 4]

**Unquote**

AN AMERICAN BANKER SPECIAL REPORT

# Bankers Trust First in Tax-Exempt Financings

## Glass-Steagall Thwarts Move into Revenue Bonds

By ANDREW ALBERT

NEW YORK — Bankers Trust Co., specializing in small industrial development deals, handled more tax-exempt financings than any other commercial bank operating in the highly restrictive public finance arena last year.

THE NEW INVESTMENT BANKERS
THIRD OF A SERIES

Behind New York-based Bankers Trust in the top tier of bank underwriters were second-place Morgan Guaranty Trust Co., New York, and No. 3 Citibank. Carving separate niches in the market, the trio handled $11.3 billion in tax-exempt issues in 1985, more than the combined volume of the next seven leading bank underwriters.

The results were gleaned from the *American Banker's* first investment banking survey, in which this newspaper ranked commercial banks by their involvement in five businesses traditionally associated with Wall Street firms.

**What banks will do if they are allowed to underwrite municipal revenue bonds**
Page 14

Today's ranking of bank underwriters in public finance was compiled by McDonnell Douglas Corp., of St. Louis, which uses municipal finance statistics provided by the data base of the Public Securities Association, a trade group.

McDonnell Douglas ranked the largest banks by their underwriting volume in all tax-exempt securities, both short-

Tax-Exempt: Page 11 ➳

**THE 10 LEADING BANK UNDERWRITERS OF TAX-EXEMPT SECURITIES**

| 1985 Rank | Underwriter | 1984 Rank | 1985 $ Volume Underwritten* (in billions) | Number of Issues Done in 1985 |
|---|---|---|---|---|
| **KING OF THE HILL:** | | | | |
| | Merrill Lynch | | $16.045 | 1,458 |
| **THE SHACKLED CHALLENGERS** | | | | |
| 1 | Bankers Trust | 1 | $4,014 | 403 |
| 2 | Morgan Guaranty | 3 | 3.829 | 230 |
| 3 | Citibank NA | 2 | 3.503 | 287 |
| 4 | Chemical Bank | 4 | 2.492 | 369 |
| 5 | Chase Manhattan | 6 | 2.038 | 321 |
| 6 | Manufactuers Hanover | 8 | 1.553 | 244 |
| 7 | First Chicago | 7 | 1.491 | 236 |
| 8 | Bank of America | 5 | 1.279 | 129 |
| 9 | Security Pacific | 11 | 1.220 | 103 |
| 10 | Bank of Boston# | 9 | 1.077 | 149 |

* Par value of each issue divided equally among senior managers and co-manaers. Institutions were ranked only by their standing among other banks.
\# Not among the nation's ten largest banks.
*Source: Public Securities Assn. Data Base and McDonnell Douglas Corp.*

## Why Banks Bother with Public Finance, And How the Big Three Are Succeeding

NEW YORK — Since the Depression, commercial banks serving state and municipal borrowers have been forced to operate with one hand tied behind their backs. Congress barred them 52 years ago from underwriting the most lucrative of all tax-exempt securities: municipal revenue bonds.

As a result, volume and profit generated by bank underwriters are dwarfed by those of the unrestricted Wall Street firms.

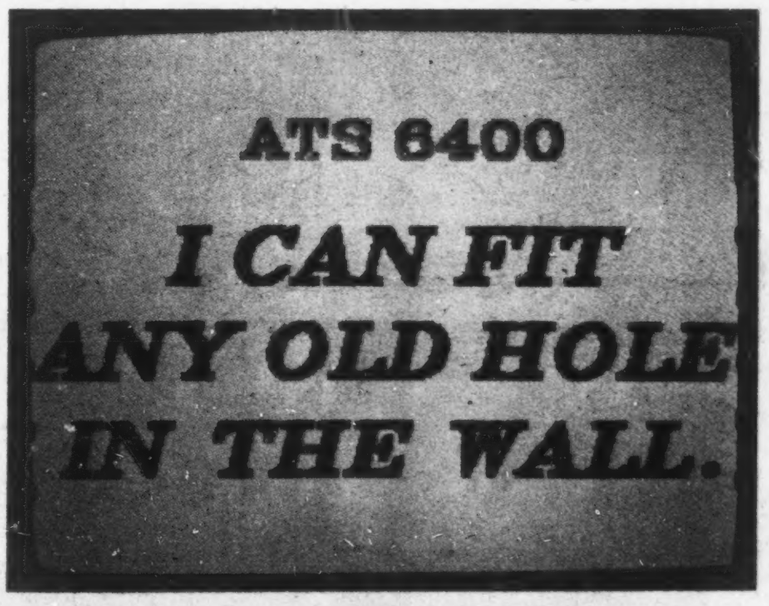
"We are a minuscule part of the bank's bottom line," said Richard M. Gerwitz, senior vice president in charge of public finance at Los Angeles-based Security Pacific National Bank. His statement could apply to any of the nation's largest banks.

Yet, even with those obstacles, none of the giant money centers is willing to do without a public finance unit and the hidden benefits that might go along with it. After all, imagine being in the place of a chief executive at a major U.S. bank, and consider:

**Ranking of second-tier institutions in tax-exempt financing**
Page 12

• What better way to prove a com-

Big Three: Page 12 ➳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